

Message Text

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PAGE 01 CARACA 09044 131753Z
ACTION L-03

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E.O. 11652: N/A
TAGS: EFIN, VE
SUBJECT: PROPOSAL FOR BILATERAL TAX CONVENTION

1. BEGIN SUMMARY. EMBASSY HAS REVIEWED TEXTS OF BILATERAL DOUBLE TAXATION AGREEMENTS TO DETERMINE WHETHER IT WOULD BE IN US INTEREST TO PROPOSE TO GOV NEGOTIATION OF SUCH A TREATY. OUR INITIAL CONCLUSION IS THAT THE IDEA HAS MERIT AND IS WORTH EXPLORING FURTHER. WE WOULD APPRECIATE DEPARTMENT'S AND TREASURY'S THOUGHTS ON THIS SUBJECT. END SUMMARY.

2. EMBASSY HAS REVIEWED TEXTS OF SEVERAL DOUBLE TAXATION TREATIES TO ASCERTAIN WHETHER SUCH AN AGREEMENT WOULD MAKE SENSE IN THE CONTEXT OF BILATERAL US-VENEZUELAN RELATIONSHIP. AS WE UNDERSTAND IT, THIS TYPE OF TREATY GENERALLY:

--DEFINES INCOME FOR PURPOSES OF TAXATION.
--PROVIDES FOR RELIEF FROM DOUBLE TAXATION WHERE APPROPRIATE.
--PROTECTS CITIZENS OF ONE CONTRACTING STATE FROM DISCRIMINATORY TREATMENT BY THE GOVERNMENT OF THE SECOND CONTRACTING STATE.
--PROVES FOR AN EXCHANGE OF CERTAIN INFORMATION AND OTHER FORMS OF COOPERATION BETWEEN THE CONTRACTING GOVERNMENTS.

3. IT SEEMS TO US A BILATERAL TAXATION CONVENTION WITH VENEZUELA MAY SERVE US INTERESTS AND CONSIDERATION SHOULD BE GIVEN TO PROPOSING
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TO GOV NEGOTIATION OF THIS KIND OF PACT. AFTER THE PRESIDENTIAL ELECTION IN DECEMBER 1978, THE GOV CAN BE EXPECTED TO MAKE IMPORTANT DECISIONS IN THE AREA OF TAX POLICY. THE POST-1978 GOVERNMENT WILL ALSO HAVE TO COME TO TERMS WITH THE ROLE OF FOREIGN PRIVATE INVESTMENT IN THE VENEZUELAN ECONOMY. THE BEGINNING OF NEGOTIATIONS ON DOUBLE TAXATION AGREEMENT NOW COULD HELP SERVE US INVESTOR INTERESTS BY PROVIDING USG WITH A VEHICLE FOR MAKING

INPUT INTO POLICY AREAS IMPORTANT TO CURRENT AND POTENTIAL US INVESTORS.

4. WE HAVE REVIEWED THE TREATY OF CARTAGENA AND OTHER IMPORTANT DOCUMENTS RELATING TO VENEZUELAN MEMBERSHIP IN THE ANDEAN PACT, AND DO NOT BELIEVE VENEZUELA'S COMMITMENTS TO THE PACT WOULD PRECLUDE NEGOTIATION OF A TAX TREATY. ON THE CONTRARY, VENEZUELA'S WILLINGNESS TO NEGOTIATE A MORE LIMITED AGREEMENT REGARDING AIRLINE EARNINGS SEEMS TO SUPPORT THE CONCLUSION THAT THE GOV FEELS FREE TO ENTER INTO AGREEMENTS OF THIS SORT.

5. WE ARE AWARE THAT NEGOTIATION OF A TAX CONVENTION MAY BE A LENGTHY PROCESS; FOR THIS REASON, IT WOULD MAKE SENSE TO INITIATE DISCUSSIONS WELL BEFORE THE GOV TAKES ANOTHER STAB AT COMPREHENSIVE TAX LEGISLATION. WE ARE ALSO AWARE THAT MOST BILATERAL CONVENTIONS ARE WITH DEVELOPED COUNTRIES. HOWEVER, TREASURY IS REPORTEDLY IN PROCESS OF NEGOTIATING AGREEMENTS WITH INDIA AND KOREA; IN PRINCIPLE, THEREFORE, THERE MUST BE VALUE PERCEIVED IN AGREEMENTS OF THIS NATURE WITH MORE ADVANCED DEVELOPING COUNTRIES, SUCH AS VENEZUELA.

6. WE WOULD EXPECT ESTABLISHED US INVESTORS TO BE UNENTHUSIASTIC ABOUT A TAX CONVENTION, IN PART, BECAUSE OF PROVISIONS FOR EXCHANGE OF INFORMATION. ON THE OTHER HAND, POTENTIAL INVESTORS WOULD PERCEIVE A TAX CONVENTION AS IMPROVING THE INVESTMENT CLIMATE, BY PROVIDING SOME PROTECTION AGAINST POSSIBLE ARBITRARY AND DISCRIMINATORY ACTIONS BY THE HOST GOVERNMENT.

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7. ACTION REQUESTED: EMBASSY WOULD APPRECIATE DEPARTMENT'S AND TREASURY'S THOUGHTS ON SUBSTANCE OF PROPOSED INITIATIVE.

CRAWLEY

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Message Attributes

Automatic Decaptioning: X
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Current Classification: UNCLASSIFIED
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Copy: SINGLE
Sent Date: 13-Sep-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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